

## **TRANSCO DISCUSSION REPORT ON PD7 & PD8**

**PD7: Change to the Invoicing Process for Calculating LDZ Capacity and LDZ Commodity Unit Rates in respect of LDZ Connected System Exit Points (CSEPs)**

**PD8: Change to the Means of Calculating the LDZ Commodity Unit Rate for the Reconciliation of Smaller Supply Points within LDZ Connected Systems via RbD**

### **1. TRANSCO'S INITIAL PROPOSALS**

In each case, the proposals are intended to become effective from 1st October 1999, in line with the implementation of Network Code Modification 0216:

**In PD7:** Transco proposed that for each CSEP, the CSAQ and SOQ values effective on the last day of the relevant billing month (divided by the number of physical connections to Transco's system) be used to generate LDZ capacity and LDZ commodity unit rates for that month's CSEP invoice.

**In PD8:** Transco proposed (for the billing of reconciliation variances in respect of smaller supply points within CSEPs) that a snapshot of the NDM CSEP population be taken at, or around 30th June each year, listing all NDM CSEPs which are at that point live for the purposes of billing for transportation. The snapshot will show CSAQ and SOQ values for each CSEP. On the basis of this list, an average CSAQ and CSEP SOQ will be determined for application in calculating the LDZ commodity unit rate. The revised parameters would become effective from 1 October, and the LDZ commodity unit rate at any time would be determined by reference to the statement of transportation charges in force at the time.

### **2. SUMMARY OF RESPONSES**

Transco received one response from a shipper. This questioned the status and intent of the Discussion Papers, the relationship between the Papers and Network Code Modification Proposal 0216, and also expressed concerns over the possibility of discriminatory charging effects.

#### **2.1 Status and Intent of Discussion Papers PD7 and PD8**

The respondent sought clarification from Transco as to the status and intent of discussion Papers PD7 and PD8, querying the timing of their release and the lack of reference to Transco's obligations under Condition 3 of its PGT Licence, or its obligations under Section B 1.8.2 of the Network Code viz a viz notification and publication of transportation charges.

#### **Transco's Response**

Transco's view is that since the proposals made in PD7 and PD8 are intended as practical steps to facilitate the implementation of Network Code Modification Proposal 0216, it is not appropriate to frame these proposals in terms of a change to the underlying charging methodology which will remain unchanged.

The existing monthly CSEPs billing process involves additional complexities over that for single supply points connected to Transco's system, due to the fact that load may be added - at varying rates - during the development phase of a connected system. In PD7, Transco pointed out that the LDZ charging methodology is based on the principle (supported by analysis) that there is a general relationship between a supply point's size and the extent to which it utilises the tiers of the LDZ network. However, the utilisation of the LDZ network does not change once the supply point is built.

On this basis, moving to a level of detail at which daily increments in SOQ downstream of the CSEP are directly reflected in daily charge recalculation is unnecessary, as it would not provide any meaningful signal to the shipper in terms of reflecting the costs incurred by Transco.

The proposed inclusion of CSEPs within RbD under Network Code Modification Proposal 0216 adds a further layer of complexity, in that RbD requires the charging of reconciliation for smaller supply points to be effected in aggregate. Whilst this is achieved simply for smaller supply points connected directly to Transco's system, the aggregation of loads downstream of each CSEP for the purpose of charging means that an appropriate simplification of the process for CSEPs is required to facilitate their inclusion in the RbD process.

This was recognised by the Network Code Modification Proposal 0216 Development Workgroup, hence their recommendation that the transportation charge adjustment to the LDZ commodity rate be set at a fixed rate. However, Transco's view is that since the requirement for simplification is driven by the specific treatment of SOQ for CSEPs, the change proposed should take the form of a simplification to the manner in which SOQ is applied in the RbD billing process, rather than a change in the underlying charging methodology.

Given the above, Transco considers that the timetables for notification and publication are not applicable in the case of PD7 and PD8.

## **2.2 Relationship between PD7, PD8 and Network Code Modification Proposal 0216**

The proposals made in discussion papers PD7 and PD8, whilst separate to the Modification Proposal, are regarded by Transco as supporting measures, which are necessary to facilitate the continued billing for transportation to CSEPs under Network Code Modification Proposal 0216.

For information, Network Code Modification Proposal 0216 was approved by Ofgem on 11 August. The Modification will be implemented with effect from 1 October 99, and it is Transco's intention that the proposals made in PD7 and PD8 also be implemented with effect from that date, as the proposed changes will be required to support the CSEPs billing process, from the point at which the Modification is implemented.

## **2.3 Concerns over Possible Discriminatory Charging Effects**

The respondent asserted that the concept of RbD applying to CSEPs came about as a result of the problems associated with applying meter point reconciliation to them due

to the lack of meters at most of these exit points from Transco's system, and the variation in reconciliation processes applied downstream of the CSEP. They also expressed concern that Shippers to supply points on Transco's system should not be required to provide preferential treatment to those shipping to CSEPs. Transco's charges must therefore reflect the actual situation as closely as possible, and the proposed snapshot of CSAQ, and calculation of average values, should be made on a frequent (at least monthly) and an LDZ specific basis.

### **Transco's Response**

Transco's view is that inclusion of CSEPs within the RbD process is principally driven by fulfilling the acceptance criterion relating to CSEPs which surrounded the implementation of Network Code Modification 0194. The intention is prospectively to remove any distortion which may have been attributable to their exclusion from the process, and to effect billing for transportation on an equitable basis. In making its proposals in PD7 and PD8, Transco is mindful of its obligations under the PGT Licence to avoid undue discrimination in charging for transportation services.

With regard to the possible charging effects arising from the change to process proposed in PD7 for the calculation of unit LDZ capacity and LDZ commodity charges under Network Code Modification Proposal 0216, Transco's view is as stated in Transco's response in 2.1 above. Any charging effect will only arise during the development phase of the CSEP and, as the analysis conducted in support of PD7 indicated, is likely to be very small.

Concerning the change to process proposed in PD8 for billing CSEP reconciliation charges under Network Code Modification Proposal 0216, and in addition to Transco's comments already made above, PD8 argued that, as total NDM CSEP throughput accounts for a very small percentage (c1.9%) of transported volume, any reconciliation variances attributable to NDM CSEPs can be expected to be small in total. To give some idea of the possible scale of any charging effect, analysis conducted to date suggests that using a national average NDM CSEP SOQ as opposed to LDZ specific values would produce a range in charges equivalent to around £2.00 per annum (making the comparison on the basis of an assumed CSEP reconciliation variance of 1 per cent of average CSAQ in each LDZ).

## **3. CONCLUSION AND FINAL PROPOSALS**

Taking the respondent's views into account, Transco recognises that with an expanding CSEPs market, the potential exists for material charging effects to emerge. In view of this it is proposed that, once implemented, the effect of the proposals set out in PD7 and PD8, be kept under review, and that on-going analysis of the CSEPs population be conducted within Transco to establish whether trends in growth over time, combined with LDZ variations, are likely to render the proposed arrangements inequitable at any time. Should the results of the analysis indicate this, then Transco will enter further discussion with the industry to propose any refinements it considers necessary.

With the above caveat borne in mind therefore, Transco's final proposals are:

- **that for each CSEP, the CSAQ and SOQ values effective on the last day of the relevant billing month (divided by the number of physical connections to Transco's system) be used to generate LDZ capacity and LDZ commodity unit rates for that month's CSEP invoice.**
  
- **that the applicable LDZ commodity rate for use in the billing of NDM reconciliation variances for CSEPs, be derived on the basis of an average CSAQ and CSEP SOQ (and by reference to the relevant statement of transportation charges). The average CSAQ and CSEP SOQ values will be determined on the basis of a snapshot of the NDM CSEP population taken at or around 30 June each year, and will be made effective as of 1 October in the same year.**

## **Appendix**

### **Notification and Implementation of Average CSEP Values for Determining the Applicable LDZ Commodity Rate for Billing of NDM CSEP Reconciliation Variances**

The average CSAQ and CSEP SOQ values proposed for use in determining the applicable LDZ commodity rate for the billing of NDM CSEP reconciliation variances with effect from 1 October 1999 are as follows:<sup>1</sup>

Average NDM CSAQ	1,744,435	kWh
Average NDM CSEP SOQ	13,310	kWh

By reference to the Statement of Transportation Charges effective as from 1 October 1999, the above SOQ value produces an applicable unit LDZ commodity rate of 0.0855 pence per kWh. This, together with the NTS commodity element, equals 32% of the total unit commodity (TRE) rate of 0.3174 pence per kWh for the charging of reconciliation in respect of Transco connected smaller supply via RbD.

The average values in the above table will be published on the on-line Shipper Information Service, and will be displayed on the CSEP invoices.

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<sup>1</sup> The reason for the difference between the above figures and those shown in the same table in PD8 is that in the previous table, the number of logical meters had been used in error. Using the number of CSEPs in deriving the average values gives the correct result. This has been taken into account in supporting analysis of charging effects.